

contribution to such disability savings account in an amount equal to the amount of such distribution before the date that is 180 days after such distribution was made.

“(4) **ADDITIONAL TAX FOR DISTRIBUTIONS NOT USED FOR QUALIFIED SERVICES OR PRODUCTS.**—The tax imposed by this chapter for any taxable year on any taxpayer who receives a payment or distribution from an disability savings account which is includible in gross income shall be increased by 10 percent of the amount which is so includible.

“(5) **ROLLOVER CONTRIBUTIONS.**—Paragraph (1) shall not apply to any amount paid or distributed from a disability savings account to the extent that the amount received is paid, not later than the 60th day after the date of such payment or distribution, into—

“(A) another disability savings account for the benefit of—

- “(i) the same qualified beneficiary, or
- “(ii) an individual who—

“(I) is the spouse of the qualified beneficiary or bears a relationship to the qualified beneficiary which is described in section 152(d)(2), and

- “(II) is a qualified beneficiary, or

“(B) any trust which is described in subparagraph (A) or (C) of section 1917(d)(4) of the Social Security Act and which is for the benefit of and individual described in clause (i) or (ii) of subparagraph (A).

The preceding sentence shall not apply to any payment or distribution if it applied to any prior payment or distribution during the 12-month period ending on the date of the payment or distribution.

“(6) **CHANGE IN BENEFICIARY.**—Any change in the beneficiary of a disability savings account shall not be treated as a distribution for purposes of paragraph (1) if the new beneficiary is an individual described in paragraph (5)(A)(ii) as of the date of the change.

“(d) **DEFINITIONS AND SPECIAL RULES.**—For purposes of this section—

“(1) **QUALIFIED BENEFICIARY.**—The term ‘qualified beneficiary’ means any individual who—

- “(A) is under the age of 65, and

- “(B) has—

“(i) been determined by the Commissioner of Social Security or the Disability Determination Service of a State to be—

“(I) blind (as determined under section 1614(a)(2) of the Social Security Act, but without regard to any income or asset eligibility requirements that apply under such title), or

“(II) disabled (as determined under section 1614(a)(3) of the Social Security Act, but without regard to any income or asset eligibility requirements that apply under such title, or under section 216(d) of such Act), and

“(ii) not been determined by the Commissioner of Social Security or the Disability Determination Service of a State to be no longer blind or disabled (as so defined).

The term ‘Disability Determination Service’ means, with respect to each State, the entity that has an agreement with the Commissioner of Social Security to make disability determinations for purposes of title II or XVI of the Social Security Act.

“(2) **QUALIFIED INDIVIDUAL.**—The term ‘qualified individual’ means, with respect to any disability savings account—

- “(A) the qualified beneficiary,

- “(B) any individual—

“(i) who is the spouse of the qualified beneficiary or bears a relationship to the qualified beneficiary which is described in section 152(d)(2), or

“(ii) provides over one half of such qualified beneficiary’s support,

“(C) the legal guardian of the qualified beneficiary, or

“(D) in the case of any qualified beneficiary who is in the legal custody of a State or any agency thereof, any individual appointed for purposes of this paragraph by a court of competent jurisdiction.

“(3) **ACCOUNT TERMINATIONS, ETC.**—

“(A) **PROHIBITED TRANSACTIONS.**—If, during any taxable year of the qualified individual designated under subsection (a)(3), such qualified individual or the qualified beneficiary of the disability savings account engages in any transaction prohibited under section 4975, such account ceases to be an disability savings account as of the first day of such taxable year.

“(B) **EFFECT OF PLEDGING ACCOUNT AS SECURITY.**—If, during any taxable year of the qualified beneficiary, the qualified beneficiary uses the account or any portion thereof as security for a loan, the portion so used is treated as distributed to the qualified beneficiary.

“(4) **ONLY 1 ACCOUNT PER QUALIFIED BENEFICIARY.**—No individual who is a qualified beneficiary may have more than 1 disability savings account. The Secretary may promulgate regulations necessary to carry out the purposes of this paragraph.

“(e) **REPORTS.**—The trustee of a disability savings account shall make such reports regarding such account to the Secretary and to the qualified individual designated under subsection (a)(3) with respect to contributions, distributions, fees (including the maximum, minimum, and average fees for such accounts), and such other matters as the Secretary may require. The reports required by this subsection shall be filed at such time and in such manner and furnished to such individuals at such time and in such manner as may be required.

“(f) **REGULATIONS.**—The Secretary, in consultation with the Secretary of Health and Human Services, shall prescribe such regulations as may be necessary to carry out the purposes of this section and to prevent the abuse of such purposes.”

(b) **ROLLOVERS FROM QUALIFIED TUITION PROGRAMS.**—Paragraph (3) of section 529(c) of the Internal Revenue Code of 1986 is amended by adding at the end the following new subparagraph:

“(E) **ROLLOVERS TO DISABILITY SAVINGS ACCOUNTS.**—

“(i) **IN GENERAL.**—Subparagraph (A) shall not apply to that portion of any distribution which, within 60 days of such distribution, is transferred to a disability savings account with respect to which the designated beneficiary is the qualified beneficiary (as defined by section 530A(d)(1)).

“(ii) **LIMITATION.**—Clause (i) shall not apply to any transfer if a prior transfer described in clause (i) has occurred at any time preceding such transfer.”

(c) **TAX ON PROHIBITED TRANSACTIONS.**—

(1) **IN GENERAL.**—Paragraph (1) of section 4975(e) of the Internal Revenue Code of 1986 is amended by striking “or” at the end of subparagraph (F), by redesignating subparagraph (G) as subparagraph (F), and by inserting after subparagraph (F) the following new subparagraph:

“(G) a disability savings account described in section 530A(a), or”

(2) **SPECIAL RULE.**—Section 4975(c) of such Code is amended by adding at the end the following new paragraph:

“(7) **SPECIAL RULE FOR DISABILITY SAVINGS ACCOUNTS.**—A qualified beneficiary (as defined by section 530A(d)(1)) shall be exempt from the tax imposed by this section with respect to any transaction concerning a disability savings account (as defined by section 530A(a)) which would otherwise be taxable under this section if, with respect to such transaction, the account ceases to be a disability savings account by reason of the

application of section 530A(d)(3)(A) to such account.”

(d) **FAILURE TO PROVIDE REPORTS ON DISABILITY SAVINGS ACCOUNTS.**—Paragraph (2) of section 6693(a) of the Internal Revenue Code of 1986 is amended by striking “and” at the end of subparagraph (D), by striking the period at the end of subparagraph (E) and inserting “and”, and by inserting after subparagraph (E) the following new subparagraph:

“(F) section 530A(e) (relating to disability savings accounts).”

(e) **ANNUAL REPORTS TO CONGRESS.**—The Secretary of the Treasury, in consultation with the Secretary of Health and Human Services and the Commissioner of Social Security, shall report annually to Congress on the usage of disability savings accounts.

(f) **AUTHORIZATION OF APPROPRIATIONS.**—There are authorized to be appropriated to the Commissioner of Social Security for fiscal years beginning with fiscal year 2007, such sums as may be necessary for certifying and recertifying individuals as qualified beneficiaries for purposes of section 530A(d)(1) of the Internal Revenue Code of 1986 (as added by subsection (a)). Amounts appropriated pursuant to the preceding sentence may be used by the Commissioner, as appropriate, for making payments to States for certifications and recertifications of individuals as such beneficiaries that are made under an agreement entered into between the Commissioner and by the Disability Determination Service for the State.

(g) **CLERICAL AMENDMENT.**—The table of parts for subchapter F of chapter 1 of the Internal Revenue Code of 1986 is amended by adding at the end the following new item:

“PART IX—DISABILITY SAVINGS ENTITIES”.

(h) **EFFECTIVE DATE.**—The amendments made by this section shall apply to taxable years beginning after December 31, 2007.

SEC. 5. MATCHING TAX CREDIT FOR CONTRIBUTIONS TO DISABILITY SAVINGS ACCOUNTS.

(a) **IN GENERAL.**—Subpart C of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1986 (relating to refundable credits) is amended by redesignating section 36 as section 37 and by inserting after section 35 the following new section:

“SEC. 36. DISABILITY SAVINGS ACCOUNT MATCHING CONTRIBUTIONS.

“(a) **ALLOWANCE OF CREDIT.**—In the case of a qualified individual, there shall be allowed as a credit against the tax imposed by this subtitle for the taxable year an amount equal to 50 percent of so much of the qualified disability savings contributions made during the taxable year as do not exceed \$2,000.

“(b) **LIMITATIONS.**—

“(1) **LIMITATION BASED ON MODIFIED ADJUSTED GROSS INCOME.**—

“(A) **IN GENERAL.**—The amount which would (but for this paragraph) be taken into account under subsection (a) for the taxable year shall be reduced (but not below zero) by the amount determined under subparagraph (B).

“(B) **AMOUNT OF REDUCTION.**—The amount determined under this subparagraph is the amount which bears the same ratio to the amount which would be so taken into account as—

- “(i) the excess of—

“(I) the taxpayer’s modified adjusted gross income for the taxable year, over

- “(II) the applicable amount, bears to

- “(ii) the phaseout amount.

“(C) **APPLICABLE AMOUNT; PHASEOUT AMOUNT.**—For purposes of subparagraph (B), the applicable amount and the phaseout amount shall be determined as follows: